

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.**

In the Matter of

**Joint Applications of MCI WorldCom, Inc.,
and Sprint Corporation for Consent to
Transfer Control**

CC Docket 99-333

DECLARATION OF DENNIS W. CARLTON AND HAL S. SIDER

February 18, 2000

I. QUALIFICATIONS

1. I, Dennis W. Carlton, am Professor of Economics at the Graduate School of Business of The University of Chicago. I received my AB in Applied Mathematics and Economics from Harvard University and my MS in Operations Research and Ph.D. in Economics from the Massachusetts Institute of Technology. I have served on the faculties of the Law School and the Department of Economics at The University of Chicago and the Department of Economics at the Massachusetts Institute of Technology. I specialize in the economics of industrial organization, which is the study of individual markets and includes the study of antitrust and regulatory issues. I am co-author of Modern Industrial Organization, a leading textbook in the field of industrial organization, and I also have published numerous articles in academic journals and books. In addition, I am Co-Editor of the Journal of Law and Economics, a leading journal that publishes research applying economic analysis to industrial organization and legal matters. I have served as an Associate Editor of the International Journal of Industrial Organization and Regional Science and Urban Studies, and have served on the Editorial Board of Intellectual Property Fraud Reporter.

2. In addition to my academic experience, I am President of Lexecon Inc., an economics consulting firm that specializes in the application of economic analysis to legal and regulatory issues. I have served as an expert witness before various state and federal courts, foreign tribunals, and I have provided expert witness testimony before the U. S. Congress and a variety of state and federal regulatory agencies, including the Federal Communications Commission (FCC). I also have served as a consultant to the Department of Justice on the Merger Guidelines of the Department of Justice and Federal Trade Commission, as a general consultant to the Department of Justice and Federal Trade Commission on antitrust matters, and as an advisor to the Bureau of the Census on the collection and interpretation of economic data. I also have provided testimony on telecommunications matters before Congress, the

federal courts, and federal and state regulatory agencies and have published academic articles on telecommunications issues. A copy of my curriculum vitae is attached as Exhibit 1 to this affidavit.

3. I, Hal S. Sider, am a Senior Vice-President of Lexecon Inc. I received a BA in Economics from the University of Illinois in 1976 and a Ph.D. in Economics from the University of Wisconsin (Madison) in 1980. I have been with Lexecon since 1985, having previously worked in several government positions. I specialize in applied microeconomic analysis and have performed a wide variety of economic and econometric studies relating to industrial organization, antitrust and merger analysis. I have published a number of articles in professional economics journals on a variety of topics and have testified as an economic expert on matters relating to industrial organization, antitrust, labor economics and damages. In addition, I have directed several studies of competition in telecommunications industries and have previously testified as an expert on telecommunications matters before the FCC and public utility commissions in various states. A copy of my curriculum vitae is attached as Exhibit 2 to this affidavit.

II. OVERVIEW

4. We have been asked by counsel for SBC to comment on the possible impact of the proposed merger of Sprint and MCI WorldCom on competition in the provision of long distance telephone service for residential consumers. Although we submitted testimony in support of the merger of MCI and WorldCom,¹ the proposed merger raises distinct competitive concerns.

1. Declaration of Dennis Carlton and Hal Sider before the Federal Communication Commission, CC Docket No. 97-211, January 25, 1998; Second Declaration of Dennis Carlton and Hal Sider before the Federal Communication Commission, CC Docket No. 97-211, March 19, 1998.

5. Our analysis focuses on the impact of the proposed merger on competition in the provision of long distance services to residential customers. The proposed merger combines two of three major firms that together provide long distance service to more than 80 percent of residential customers. As detailed below, these firms advertise extensively and enjoy widespread brand name recognition. The provision of long distance service to residential customers is also characterized by complex pricing with consumers facing significant costs of investigating which supplier provides the appropriate price and quality of service. These factors inhibit competition among firms and contribute to the importance of brand names.

6. Given the existence of only three major national brand-name providers of long distance services in recent years, it is not possible to evaluate the likely competitive effects of the proposed merger by relying on recent historical experience on how prices respond following a change the number of brand name carriers. Instead, the evaluation of the potential competitive effects of the proposed transaction must rely in part on other forms of analysis. As discussed below, analyses of switching patterns and preferences for brand name providers among residential long distance consumers raise cause for concern that a reduction in the number of brand name suppliers will adversely affect competition. This concern is reinforced by stock market evidence that supports the view that the proposed transaction is likely to adversely affect competition. Taken together, these analyses indicate that the proposed transaction is likely to adversely affect residential long-distance consumers.

7. The first section of this report evaluates various aspects of competition in the provision of long distance service to residential consumers:

- The proposed transaction combines two of the main three long distance carriers that together account for 80 percent of service to residential customers.
- These carriers engage in extensive advertising and have significant brand name recognition.

- Residential long distance customers face complex pricing schedules and frequently remain customers of “brand name” carriers despite the availability of services from lower cost carriers.
- Available data indicate that Sprint and MCI face higher customer turnover than AT&T (although lower than that of non-brand carriers). Residential customers generally switch between MCI and Sprint at a disproportionately high rate, suggesting that these companies are particularly close substitutes for one another.
- Consistent with their need to attract and retain large number of subscribers, Sprint and MCI have introduced certain innovations in pricing and services including, most recently, calling plans generally aimed at high volume customers. The merged firm will have less incentive to offer innovations.
- The entry of BOCs cannot be relied on to offset the immediate effect of a reduction in competition for residential customers resulting from the proposed transaction. Today, BOCs have received authorization to originate long distance service in only one state within their home territories. The timing of additional BOC entry is uncertain.

8. The second section of this report evaluates the impact of the announcement of the merger of MCI WorldCom and Sprint on the stock prices of their competitors. The stock prices of rival long distance suppliers, including AT&T and others, rose relative to the level expected based on general market conditions following the announcement. This stock market evidence supports the view that the proposed transaction is likely to adversely affect competition.

III. THE PROPOSED TRANSACTION RAISES COMPETITIVE CONCERNS REGARDING COMPETITION IN THE PROVISION OF RESIDENTIAL LONG DISTANCE SERVICES

9. This transaction raises competitive issues that are distinct from those raised by the MCI WorldCom merger, which we supported two years ago. Our analysis in that transaction stressed that the elimination of WorldCom as an independent long distance network would not adversely affect competition due in part to the fact that several firms comparable in scope to WorldCom were in the process of deploying new long distance networks. Moreover, we emphasized that the MCI WorldCom transaction did not eliminate a significant brand name provider of residential services, because WorldCom relied principally on resellers to market its long distance service to residential consumers.²

10. Successful entry by new network providers, however, does not necessarily ensure competition in the provision of long distance services to residential consumers when brand names are important.³ As described below, the provision of long distance service to residential consumers is characterized by complex pricing mechanisms, and consumer difficulties in identifying the appropriate carrier and calling plan. Long distance carriers without "brand names" have not been successful in providing service to a large share of households on a national basis.

2. Declaration of Dennis Carlton and Hal Sider before the Federal Communication Commission, CC Docket No. 97-211, January 25, 1998, pp. 22-23.

3. In prior decisions, the FCC has focussed on the "mass market" which includes both residential and small business customers. (Memorandum Opinion and Order, In re Application of WorldCom Inc. and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation to WorldCom Inc., 13 FCC Rec. 18, 025, at ¶24 (September 14, 1998) ("MCI / WorldCom Opinion")). We do not dispute the FCC's market definition. The affidavit, however, focuses on residential customers since these customers alone are the focus of much of the data we rely upon.

A. THE PROPOSED TRANSACTION COMBINES TWO OF THREE MAJOR PROVIDERS OF LONG DISTANCE SERVICES TO RESIDENTIAL CONSUMERS

1. AT&T, Sprint and MCI together account for roughly 80 percent of service to residential consumers

11. AT&T, Sprint, and MCI WorldCom are, by far, the largest providers of residential long distance telephone services in the U.S. As shown in Table 1, these firms together account for nearly 80 percent of long distance revenue⁴ and 82 percent of long distance revenue from residential customers.

Table 1: Revenue Shares for Long Distance Carriers: 1998 / 1999

	Residential Revenue 1/	Subscribers 2/	Total Revenue 3/
ATT	58.3%	61.7%	43.1%
MCI	18.4%	21.0%	25.6%
Sprint	5.7%	7.1%	10.5%
Others	17.6%	10.2%	20.8%

1/ FCC, Trends in Telephone Service, September 1999, Table 11.5. Data reflect 1998 values.

2/ Paragren Technologies (data for residential customers only, 10/98-9/99).

3/ FCC, Trends in Telephone Service, September 1999, Table 11.3. Data reflect 1998 values.

12. While AT&T's share has declined over time and the number of subscribers served by fringe carriers has risen, there has been no change in the ranking of the three largest carriers. As shown in Table 2, the identity and size ranking of residential long distance providers has not changed during the post-divestiture period.

4. This figure is based on long distance operating revenue, including revenue from non-residential consumers.

Table 2: Shares of Pre-Subscribed Lines for Major Long Distance Carriers: 1987-96

	AT&T	MCI	Sprint	Others
Dec. 1987	83.7%	8.2%	4.8%	3.3%
Dec. 1990	75.6%	13.2%	6.6%	4.7%
Dec. 1993	71.2%	15.3%	6.5%	7.0%
Dec. 1996	63.3%	14.5%	7.4%	14.8%

Source: FCC, Long Distance Market Shares, Fourth Quarter 1998 (March 1999), Table 2.2

13. As these data indicate, the provision of residential long distance telephone services remains highly concentrated. Since the divestiture of AT&T's long distance operations from local services in 1984, no new major national providers of residential long distance service have emerged. While there are now more than 600 long distance carriers (including resellers),⁵ the stability in the identity of the major carriers indicates that there are considerable impediments to expansion and widespread consumer acceptance of new entrants.

14. While the share of residential long distance revenue and lines accounted for by other suppliers has increased in recent years, no other firm today accounts for more than a few percent of long distance revenue. The next most significant providers of long distance service to residential service each accounts for a relatively small share of households:

5. FCC, Industry Analysis Division, Common Carrier Bureau, Trends in Telephone Service, September 1999, Table 10.2.

**Table 3: Presubscribed Residential Subscribers Shares
for Non-Major Long Distance Carriers:
October 1998 to September 1999**

Teleglobe (Excel)	3.4%
Qwest	2.7%
GTE	0.9%
Frontier	0.4%

Source: Paragren Technologies. Data reflect survey estimates for October 1998 through September 1999.

2. In contrast to the proposed transaction, the MCI WorldCom merger did not combine two significant providers of retail long distance services.

15. As suggested by the data cited above, the proposed transaction combines two of only three major "brand-name" providers of long distance services to residential customers. As such, the competitive issues raised by the proposed transaction differ greatly from those raised by the merger of MCI and WorldCom in 1998. For example, unlike the proposed transaction, the merger of MCI and WorldCom did not raise the same concerns because:

- At the time of its merger with MCI, WorldCom had not been a significant supplier of long distance services to residential customers. FCC data indicate that WorldCom accounted for only 2.7 percent of presubscribed lines in December 1996.⁶
- WorldCom was not a significant brand name in residential long distance services nor was it a significant advertiser at the time of its merger with MCI. In 1995, for example, WorldCom advertising expenditures were less than 1 percent of those of Sprint, and less than one-half of one percent of AT&T's advertising expenditures.⁷
- The FCC also recognized that WorldCom was not a well-recognized brand name in providing residential services at the time of its merger with MCI. As the FCC noted in its Opinion in the case, "WorldCom is not a significant competitor in the provision of

6. FCC, Long Distance Market Shares, Fourth Quarter 1998, March 1999.

7. <<http://adage.com/dataplace/archives/dp190.html>>.

long distance services to residential and small business customers, as demonstrated by its small retail market share and its lack of substantial brand recognition ...”⁸

B. THE ABSENCE OF AN ESTABLISHED BRAND NAME IS AN IMPEDIMENT TO EXPANSION OF SMALLER LONG DISTANCE CARRIERS IN SERVING RESIDENTIAL CONSUMERS

16. Brand names serve an important economic function when consumers have imperfect information about a product's characteristics. This function is well recognized in the economic literature. As summarized by William Landes and Richard Posner in their analysis of trademarks and branded goods:

In short, a trademark conveys information that allows the consumer to say to himself, “I need not investigate the attributes of the brand I am about to purchase because the trademark is a shorthand way of telling me that the attributes are the same as that of the brand I enjoyed earlier.”⁹

As a result, competition from unbranded goods may not fully discipline pricing among suppliers of branded goods. Therefore, a reduction in competition among branded suppliers may adversely affect consumers even in the presence of unbranded goods.

17. Sprint, MCI WorldCom and AT&T have well-established national brands and advertise far more than other long distance suppliers. In 1998, for example, AT&T was the seventh largest national advertiser, with estimated expenditures in the U. S. of \$1.4 billion. MCI WorldCom was the 17th largest national advertiser with 1998 expenditures of \$948 million and Sprint was the 31st largest national advertiser with spending of \$671 million.¹⁰ No other long distance company was among the 200 top advertisers in the U. S. in 1998.¹¹

8. MCI/WorldCom Opinion, ¶¶33.

9. William M. Landes and Richard A. Posner, “Trademark Law: An Economic Perspective,” 30 J. Law and Economics 265 (1987), p. 269.

10. Unfortunately, data are not available to identify the amount of the advertising expenditures by AT&T, Sprint and MCI WorldCom that are attributable only to long distance services.

11. <http://www.adage.com/dig_bin/adage.cgi>; <<http://adage.com/dataplace/archives/dp396.html>>.

18. The FCC has also repeatedly recognized the significance of the AT&T, MCI WorldCom and Sprint brand names. In evaluating the potential competitive effects of the Bell Atlantic/NYNEX and SBC/Ameritech mergers on competition in the provision of local exchange services, the FCC recognized that the brand names and reputations of AT&T, Sprint and MCI WorldCom distinguish them from all other long distance carriers.¹²

19. As mentioned above, as a group, carriers other than AT&T, MCI and Sprint together serve up to 20 percent of residential long distance customers. However, even this figure implicitly overstates the ability of carriers without widely recognized brand names to gain acceptance among residential consumers. Specifically, these other carriers include a substantial number of local carriers such as SNET, GTE, Frontier and others that are not prohibited under the Telecommunications Act from offering long distance services to their in-region customers who presumably recognize and value the brand name of their in-region supplier.

20. ILECs have succeeded in attracting a significant number of customers in areas in which they offer service. For example, carriers other than AT&T, MCI and Sprint accounted for 45 percent of Connecticut consumers in 1997, a large share of these presumably are customers of SNET.¹³ Similarly, GTE provides long distance services principally to its local exchange customers and has gained roughly three million subscribers since offering service beginning in 1996.¹⁴ A 1998 FCC study, for example, shows that local carriers that offer long distance services, including many smaller incumbent local exchange carriers, provide long distance service to about 15 percent of their subscribers in their first year offering service.¹⁵

12. Memorandum Opinion and Order, In re Applications of NYNEX Corporation and Bell Atlantic Corporation for Consent to Transfer Control of NYNEX Corporation and Its subsidiaries, 12 FCC Rcd. 19985, at ¶83 (August 14, 1997) ("Bell Atlantic/NYNEX Order"); Memorandum Opinion and Order, In re Applications of Ameritech Corporation and SBC Communications Inc., CC Docket No. 98-141, FCC 99-279, at ¶87 (Oct. 8, 1999). ("SBC/Ameritech Order")

13. FCC, Long Distance Market Shares, Fourth Quarter 1998, March 1999, Table 4.1.

14. <<http://www.gte.com/AboutGTE/NewsCenter/FactSheets/communications.html>>.

15. J. Eisner and P. Wynns, Historical Patterns of Entry into Long Distance by Local Exchange Carriers, FCC, Industry Analysis Division, Common Carrier Bureau, September 1998, Table 8.1.

21. While these ILECs are not well known as long distance providers, they have significant brand name recognition within their local service territories. Their experience thus confirms the importance of brand name and consumer recognition in expanding long distance coverage and suggests that Bell companies are likely to be potent long distance competitors for residential consumers once they are permitted to enter into the provision of long distance service. However, BOCs can today provide in-region service in only one state and it is far from clear how quickly they will be permitted to offer in-region long distance service in other states.

C. CONSUMERS FACE COMPLEX PRICING FOR LONG DISTANCE SERVICES AND FREQUENTLY FAIL TO SELECT LOW-COST ALTERNATIVES

22. Branded long distance service providers have chosen to offer their services using relatively complex price schedules. This section shows that long distance consumers face significant information problems, place a high value on brand name, and often fail to obtain the best available rates offered by their long distance carrier. Information problems that result from the complex pricing schedules that carriers have chosen to adopt inhibit competition and raise the concern that reductions in competition among carriers with brand names recognized by residential consumers.

1. Long distance services carry a complex schedule of prices.

23. When consumers subscribe to a long distance carrier, they purchase various services for which they face a complex schedule of prices and ancillary fees. For example:

- Long distance prices are typically differentiated by time of day and day of week, with separate rates in effect for daytime, evening and weekend calls.
- The price of intrastate long distance calls typically differs from the rate charged for interstate long distance calls, with intrastate rates varying from state to state.

- While the pricing of interstate calls within the continental United States typically does not depend on distance or destination, the pricing of intrastate calls often does depend on distance.¹⁶
- Prices for international calls vary by destination as well as time of day and day of week.
- Many long distance consumers face “minimum usage” requirements. For example, subscribers to AT&T’s “basic” service package pay a minimum fee of \$3 per month regardless of usage. Under “minimum use” plans, additional charges are generated after this threshold has been passed.
- Many calling plans have fixed fees in addition to usage based charges. For example, subscribers to AT&T’s heavily promoted “anytime” rate of seven cents per minute pay a fee of \$5.95 per month to receive seven cents per minute rates for interstate calls.
- Long distance carriers typically charge fixed monthly “carrier line charges” in addition to other minimum and fixed monthly charges. These fees were introduced at the time that long distance carriers were required to pay PICC (presubscribed interexchange carrier charges) to local exchange companies. Nonetheless, the carrier line charges vary from company to company and typically exceed the regulated PICC charge.
- Long distance carriers also impose “universal access” charges, which fund mandated contributions to federal universal service programs. Carriers pass these charges on to consumers in different ways. AT&T, for example, imposes a fixed monthly charge of \$1.38 per month while MCI and Sprint respectively impose a 7.2 percent and 8.4 percent surcharge on consumer bills.¹⁷

16. For example, AT&T’s basic tariff continues to define distance-specific rates for certain intrastate long distance calls (CCMI TelView Express tariff database).

17. Regardless of the manner in which long distance carriers attempt to recover these costs, they are currently required to pay 5.9 percent of their end-user international and interstate revenues in universal service contributions. FCC, Proposed First Quarter 2000 Universal

24. Table 4 summarizes several key parameters of various offerings of AT&T, MCI, Sprint, and three large "non-brand name" carriers Qwest, Excel and Frontier. In comparison to the brand name carriers, these firms offer a small number of relatively simple pricing plans. The table does not report a variety of these parameters, such as prices for international calls and intrastate long distance calls (which vary from state to state).¹⁸

2. Many consumers fail to take advantage of lower-priced services offered by competing carriers

25. The importance of brand name in the provision of long distance service to residential customers is further observed in the ability of AT&T to retain large number of customers despite the apparent presence of lower-priced alternatives. We have used data on calling patterns for AT&T customers, as derived from PNR, to simulate the price that AT&T customers would pay under the AT&T calling plan that results in the lowest price for their calling pattern, as well as the long distance prices offered by Qwest, Excel, and Frontier, which are among the largest non-brand name providers of long distance services.

26. The best prices available from AT&T, Qwest, Excel and Frontier in late 1999 for customers with a particular calling pattern but different levels of monthly use are reported in Figure 1.¹⁹ As the figure suggests, the prices offered by the non-brand name carriers are lower than those offered by AT&T.

27. Using the PNR data on actual monthly calling patterns of AT&T customers in the fourth quarter of 1998, the vast majority of AT&T customers could have saved money by using one of these other carriers.²⁰ (See Table 5.) Indeed, more than 95 percent of AT&T customers

(...continued)

Service Contribution Factor, DA 99-2780 (December 10, 1999).

18. Approximately 27 percent of domestic long distance minutes of use are for intrastate calls. (FCC, Industry Analysis Division, Common Carrier Bureau, Trends in Telephone Service, September 1999, Table 16.1.)

19. The "best" plan is defined to be the one that produces the lowest bill for the customer's actual calling pattern. A customer who cannot predict his calling pattern accurately may not always be able to achieve the "best" plan. We do not address this complication.

20. The analysis separately accounts for interstate and intrastate long distance calls, with each type of calls categorized on the basis of peak period, off-peak and weekend.

Table 4

Rate Structures for Various Long Distance Services

Firm	Rate Plan	Interstate Rates			Intrastate Rates	International Rates	Monthly Minimum	Monthly Fee	Carrier Line Charge	Universal Connectivity Charge	
		Peak	Offpeak	Weekend						Flat Fee	Percentage Fee
AT&T	One Rate Plan	0.1500	0.1500	0.1500	State Specific	Destination Specific	3.00	0.00	1.51	1.38	0.0%
	One Rate Plus Plan	0.1000	0.1000	0.1000	State Specific	Destination Specific	0.00	4.95	1.51	1.38	0.0%
	Seven Sense Plan	0.0700	0.0700	0.0700	State Specific	Destination Specific	0.00	5.95	1.51	1.38	0.0%
	98Q4 Basic Rates	0.2800	0.1600	0.1300	State Specific	Destination Specific	0.00	0.00	0.85	0.93	0.0%
	99Q4 Basic Rates	0.2600	0.1600	0.1150	State Specific	Destination Specific	3.00	0.00	1.51	1.38	0.0%
Excel	Dime Deal	0.1000	0.1000	0.1000	State Specific	Destination Specific	0.00	1.00	1.46	1.20	0.0%
	Simple 7	0.0700	0.0700	0.0700	State Specific	Destination Specific	0.00	4.95	1.46	1.20	0.0%
	Three-Penny Plan	0.1000	0.0300	0.0300	State Specific	Destination Specific	0.00	5.95	1.46	1.20	0.0%
Frontier	FrontierONE	0.1400	0.1400	0.1400	State Specific	Destination Specific	3.00	0.00	1.04	0.00	5.0%
MCI	MCI One Extra	0.1500	0.1500	0.1500	State Specific	Destination Specific	5.00	0.00	1.46	0.00	7.2%
	MCI One Savings	0.2500	0.1000	0.1000	State Specific	Destination Specific	0.00	5.00	1.46	0.00	7.2%
	5 Cents Plan	0.2500	0.0500	0.0500	State Specific	Destination Specific	0.00	1.95	1.46	0.00	7.2%
	99Q4 Basic Rates	Distance Specific	Distance Specific	Distance Specific	State Specific	Destination Specific	3.00	0.00	1.46	0.00	7.2%
Qwest	Qwest Countdown (13 Months)	0.0700	0.0700	0.0500	State Specific	Destination Specific	0.00	4.95	1.50	0.00	6.9%
	5 Cents Plan	0.0500	0.0500	0.0500	State Specific	Destination Specific	0.00	8.95	1.50	0.00	6.9%
Sprint	Nickel Nights	0.1000	0.0500	0.0500	State Specific	Destination Specific	0.00	5.95	1.50	0.00	8.4%
	Seven Cents Plan	0.0700	0.0700	0.0700	State Specific	Destination Specific	0.00	5.95	1.50	0.00	8.4%
	Sprint Sense	0.2500	0.1000	0.1000	State Specific	Destination Specific	0.00	0.00	1.50	0.00	8.4%
	Sprint Sense AnyTime	0.1000	0.1000	0.1000	State Specific	Destination Specific	0.00	4.95	1.50	0.00	8.4%
	Sprint Sense AnyTime Day	0.1500	0.1500	0.1500	State Specific	Destination Specific	0.00	0.00	1.50	0.00	8.4%
	99Q4 Basic Rates	Distance Specific	Distance Specific	Distance Specific	State Specific	Destination Specific	0.00	0.00	1.50	0.00	8.4%

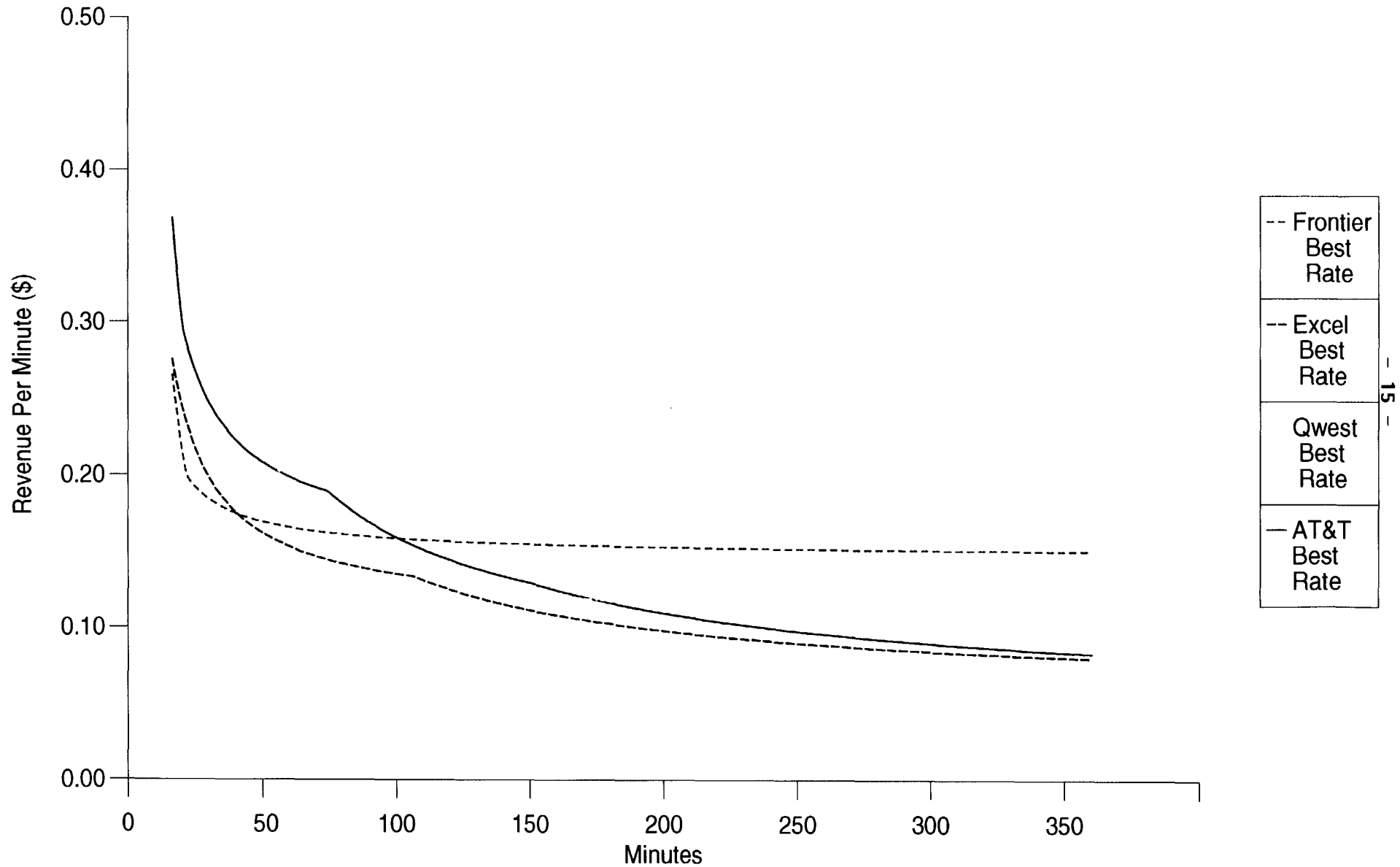
Source: CCMi TelView Express.

Note: Sprint Sense AnyTime waives its \$4.95 monthly fee for bills of more than \$30.

Figure 1

AT&T, Excel, Qwest and Frontier Best Rates in December 1999 Based on Alternative Usage Levels

Average Billed Revenue Per Minute



Source: CCMI, Excel, Qwest.

Note: Assumes 33.3% of minutes are peak weekday, 33.3% are off peak weekday, and 33.3% are weekend.

Table 5

**Comparison of 98Q4 Calling Patterns of AT&T Customers and Best Rates
Available in 1999 from Alternative Carriers**

Minutes Group	Percent of Households	Percent of Calls	Average Minutes	1999 Revenue Per Minute				Households where Lowest Priced Carrier is			
				AT&T	Excel	Qwest	Frontier	AT&T is Lowest	Excel is Less than AT&T	Qwest is Less than AT&T	Frontier is Less than AT&T
(1) 1-30 Minutes	36.5%	10.2%	12	0.503	0.415	0.620	0.360	0.0%	89.5%	0.0%	100.0%
(2) 30-60 Minutes	19.2%	11.8%	44	0.209	0.190	0.224	0.170	2.3%	82.2%	27.0%	97.4%
(3) 60-120 Minutes	19.1%	18.0%	87	0.169	0.145	0.153	0.159	4.7%	88.2%	83.7%	74.3%
(4) 120-240 Minutes	17.1%	30.1%	169	0.130	0.107	0.117	0.153	1.6%	93.9%	92.9%	9.2%
(5) 240-360 Minutes	4.6%	12.4%	288	0.109	0.089	0.100	0.151	3.0%	93.1%	87.1%	1.0%
(6) 360+ Minutes	3.5%	17.5%	541	0.096	0.078	0.084	0.149	2.6%	89.7%	92.3%	0.0%

Source: PNR, "Marketshare Monitor"; CCMI TelView Express; Excel; Qwest.

- Notes:
- (1) AT&T's "best" rate based on its Basic Rate plan, "One Rate" plan, "One Rate Plus" plan and "Seven Sense" plan. For states where CCMI does not report AT&T's intrastate tariff rates, analysis assumes AT&T's basic intrastate rates apply.
 - (2) Excel's "best" rate is based on its "Dime Deal", "Three Penny" and "Simply 7" plans.
 - (3) Qwest's "best" rate is based on its "5 Cent" plan and its "Countdown" plan assuming customers have been with Qwest for 13 months.
 - (5) Frontier's "best" rate is based on its "FrontierONE" plan.

in the sample would have received better rates from Excel, Qwest, and/or Frontier compared to the rates charged by AT&T under the plan most favorable to the customer's particular calling pattern. Excel offered lower average rates than the best AT&T rate for most customers in all usage groups; Qwest offered lower prices for most customers with more than 30 minutes of long distance calls per month; Frontier offered lower rates for most customers with lower levels of usage.

28. Nonetheless, AT&T has nearly 10 times the number of residential subscribers than Excel, Qwest, and Frontier combined. This fact is powerful evidence of both the importance of brand names as well as the information problems faced by consumers. Under these conditions, mergers of two of the three leading long distance suppliers with significant brand name recognition is likely to adversely affect competition in the provision of long distance services to residential customers.

3. Many consumers fail to take advantage of more favorable calling plans from the same vendor

29. Available data indicate that long distance customers frequently fail to obtain long distance service under the most favorable calling plan offered by a long distance carrier. We have used the PNR data to identify a sample of AT&T customers that pay basic rates or subscribe to either AT&T's "One Rate" or "One Rate Plus" plans.²¹ We then evaluate whether each of these customers would have paid lower rates under another one of these plans, given the prices in effect in late 1998.²²

30. The results indicate that more than 75 percent of basic rate customers would have paid less under one of the other plans. (See Table 6.) Similarly, more than 40 percent of subscribers to the "One Rate" plan would have paid less under either basic rates or the "One

21. The sample is identified based on bills for which the calling plans are identified in the PNR data and for which the actual charges reported by PNR are within five percent of those calculated based on the rates in effect in the fourth quarter of 1998. The latter restriction would remove sample observations with extraordinary charges or adjustments in a particular month.

22. We limit the analysis to these calling plans since these were widely promoted by AT&T.

Table 6

Analysis of Best Rate Plans for AT&T Customers in 98Q4

Customer Rate Plan	Minutes Group	Percent of Households	Percent of Calls	Average Minutes Per Household	Revenue Per Minute				Percent of Households for whom "best" plan is		
					Actual (Reported in PNR)	Basic Rate (Based on Tariffs)	One Rate (Based on Tariffs)	One Rate Plus (Based on Tariffs)	Basic Rate	One Rate	One Rate Plus
Basic Rate Customers	(1) 1-30 Minutes	66.3%	37.4%	10	0.362	0.362	0.324	0.760	23.2%	79.1%	0.0%
	(2) 30-60 Minutes	15.7%	18.2%	41	0.214	0.214	0.191	0.264	21.2%	78.8%	0.0%
	(3) 60-120 Minutes	11.7%	19.7%	83	0.184	0.184	0.168	0.176	30.8%	53.8%	15.4%
	(4) 120+ Minutes	6.3%	24.7%	177	0.189	0.190	0.156	0.136	0.0%	4.8%	95.2%
	Total	100.0%	100.0%	34	0.226	0.227	0.199	0.295	22.3%	71.4%	7.8%
One Rate Customers	(1) 1-30 Minutes	41.0%	14.0%	12	0.295	0.323	0.295	0.656	25.9%	75.5%	0.0%
	(2) 30-60 Minutes	17.7%	13.8%	44	0.191	0.211	0.191	0.254	28.3%	71.7%	0.0%
	(3) 60-120 Minutes	22.4%	22.0%	86	0.170	0.190	0.170	0.179	19.7%	60.5%	19.7%
	(4) 120+ Minutes	18.9%	50.2%	207	0.158	0.187	0.158	0.132	3.1%	0.0%	96.9%
	Total	100.0%	100.0%	71	0.174	0.200	0.174	0.194	20.6%	57.2%	22.7%
One Rate Plus Customers	(1) 1-30 Minutes	18.0%	3.1%	12	0.639	0.322	0.291	0.639	16.1%	85.5%	0.0%
	(2) 30-60 Minutes	14.8%	6.4%	46	0.246	0.218	0.187	0.246	19.6%	80.4%	0.0%
	(3) 60-120 Minutes	19.7%	11.9%	89	0.174	0.200	0.168	0.174	11.8%	54.4%	33.8%
	(4) 120+ Minutes	47.5%	78.6%	278	0.123	0.180	0.154	0.123	0.6%	0.0%	99.4%
	Total	100.0%	100.0%	159	0.141	0.186	0.159	0.142	8.4%	38.0%	53.9%

Source: PNR, "Marketshare Monitor"; CCM TelView Express.

Rate Plus" plan; and more than 45 percent of "One Rate Plus" subscribers would have paid less under one of the other plans.

31. The results must be interpreted with caution because calling patterns in a given month may not be representative of long term patterns. Nonetheless, the frequency with which AT&T subscribers pay higher rates than those available in other AT&T plans (which could be obtained without switching carriers) is indicative of the complexity of long distance pricing and the difficulty of the problems faced by consumers in evaluating available alternative plans and carriers. Under such circumstances, consumers are likely to rely on brand names in making purchasing decisions.

D. MCI AND SPRINT FACE RELATIVELY HIGH CUSTOMER "CHURN" AND ARE SIGNIFICANT HEAD-TO-HEAD RIVALS IN PROVIDING SERVICE TO RESIDENTIAL CUSTOMERS

32. Brand name long distance carriers can actively solicit each others' customers through advertising and development of new services and pricing plans. The carriers' incentives to cut price and to offer innovative services depend on the demand conditions they face, as reflected in part by customer turnover patterns and the extent to which consumers view different long distance providers as close substitutes. The three national long distance providers do not face identical demand conditions and, as a result, have diverse incentives to cut price, and to develop and promote new service offerings.

33. We have attempted to investigate aspects of demand conditions facing various long distance providers through a data source that tracks individual households' long distance purchasing patterns, including consumers' decisions to switch long distance carriers. These data are based on an ongoing survey of residential telephone consumption patterns undertaken by Paragren Technologies. Paragren has used these data to identify a sample of roughly 5,500 households in each month between October 1998 and September 1999. Paragren weights these data to be representative of national demand conditions. (Paragren's estimates of long distance suppliers' shares of residential subscribers are reported in Table 1 above.) Paragren

has also attempted to identify the presubscribed interexchange carrier (PIC) for each household, based on the household's reported long distance spending patterns and changes in long distance carriers reported in the survey.

34. The Paragren data are used to calculate customer "churn" rates, which reflect the proportion of a long distance supplier's customers in a given month that are lost to rival suppliers. The data indicate that "customer churn" is substantially higher among Sprint and MCI WorldCom customers than among AT&T customers. This implies that Sprint and MCI WorldCom customers have lower switching costs than AT&T customers and that MCI and Sprint each continuously need to attract a relatively larger number of customers than AT&T merely to replace those lost to rivals. As an average over the sample period, the following company-specific monthly churn rates are observed in the Paragren sample:

Table 7: Monthly "Churn" Rates for Residential Long-Distance Customers: October 1998-September 1999

AT&T	4.7%
MCI WorldCom	8.7%
Sprint	8.1%
Others	9.7%

Source: Paragren Technologies.

35. These figures thus indicate that among the households in the Paragren sample, AT&T loses roughly 4.7 percent of its subscribers to rival carriers in a given month. Other carriers' subscribers, however, are substantially less loyal, with Sprint and MCI WorldCom each losing more than 8 percent of its customers in a given month. Customer churn among subscribers to non-major carriers is even higher. Assuming that these average churn rates remain constant over time, the average AT&T subscriber remains with the firm for close to two years (21.3 months), while a Sprint or MCI WorldCom customer would remain for substantially shorter periods (12.3 months and 11.5 months, respectively).

36. The Paragren data also generally support the view that MCI and Sprint are closer substitutes than either firm is with AT&T. In the absence of other information, it would be expected that former customers of, say, Sprint, would switch to AT&T, MCI WorldCom and other carriers in proportion to these firms' relative market shares. However, if, for example, the actual number of customers switching from Sprint to MCI WorldCom (and vice-versa) is greater than the number expected based on relative market shares alone, then these firms are likely to be relatively close substitutes in the eyes of consumers. When the actual number of customers switching from one carrier to another is lower than the number expected based on relative market shares alone, these firms are relatively less likely to be close substitutes.

37. The Paragren data reveal that customers that drop Sprint as their presubscribed interexchange carrier (PIC) switch to MCI WorldCom more frequently than expected based on market shares alone, and switch to AT&T less frequently than expected on this basis. Similarly, former MCI WorldCom customers switch to Sprint a bit more frequently than expected based on market shares alone.²³

Table 8: Ratio of Actual to Expected Number of Customer Switches between Long-Distance Carriers: October 1998-September 1999

Former Carrier	New Carrier			
	AT&T	MCI WorldCom	Sprint	Other
Sprint	.90	1.28	---	1.01
MCI WorldCom	.99	--	1.08	1.00

Source: Paragren Technologies.

23. The deviation between expected and actual switches is statistically significant at the 95 percent confidence level for former MCI WorldCom customers, but not former Sprint customers.

38. These results thus generally support the proposition that MCI WorldCom and Sprint are closer substitutes in the view of residential consumers than either is with AT&T. As a result, the proposed merger between these firms would be expected to adversely affect competition to a greater extent than implied by their market shares alone.

D. THE PROPOSED MERGER WOULD ELIMINATE COMPETITION BETWEEN FIRMS THAT HAVE INTRODUCED PRICING AND SERVICE INNOVATIONS

39. As shown above, MCI WorldCom and Sprint face higher churn rates than AT&T and also appear to face greater head-to-head competition with each other than with other carriers. Given these demand patterns, MCI and Sprint face stronger incentives than AT&T to develop innovative pricing and service offerings in order to maintain their current customers and attract new ones. Thus, it is not surprising to find that Sprint and MCI (more than AT&T) have introduced pricing and service innovations in residential long distance service in recent years.

Calling Circles

40. Calling circles, which enable subscribers to pay reduced rates on calls to certain other subscribers served by the same long distance company, were first offered by MCI.

- In March 1991, MCI introduced its "Friends and Family" program. This program offered a 20 percent discount on calls to 12 pre-determined MCI customers. The program included no monthly fees or restrictions based on time of day or day of week.²⁴
- In June 1992, Sprint introduced its "Most" plan, which provided 20 percent discounts to the most frequently called number and 20 percent off on calls to other Sprint customers.²⁵

24. PR Newswire, March 18, 1991, "MCI introduces idea of 20% additional savings on every call to 'Friends and Family.'"

25. PR Newswire, June 1, 1992, "Sprint introduces 'The Most.'"

- In February 1993, AT&T introduced its “i Plan” which offered bonus awards and discounts to frequently called areas.²⁶

Collect Calling

41. Simplified collect calling was introduced by MCI in 1993. A similar service was deployed by AT&T later that year.

- In May 1993, MCI introduced its “1-800-COLLECT” service, which provided a single number for placing collect calls. Neither the caller nor the recipient needed to be a MCI subscriber.²⁷
- AT&T introduced a similar service in July 1993.²⁸

Expansion of Dial-Around Services

42. While dial-around services had been introduced by others, the expansion of these services was driven by MCI.

- In January 1997, MCI introduced “10-321” dial-around service under the Telecom*USA brand.²⁹ MCI aggressively promoted this service and accounted for an estimated 45 percent of dial-around revenue in 1998.³⁰
- In October 1998, AT&T introduced its “Lucky Dog” dial-around service.³¹

Simplified Pricing Plans

43. A variety of new, simplified pricing plans, aimed primarily at higher-volume residential callers, were introduced beginning in 1995, with the first plan offered by Sprint.

26. <<http://www.att.com/press/0293/930218.csa.html>>.

27. PR Newswire, May 19, 1993, “MCI brings choice to consumers with 1-800-COLLECT.”

28. <<http://www.att.com/press/0793/930701.csa.html>>.

29. PR Newswire, January 21, 1997, “Telecom*USA announces 10-321.”

30. Frost and Sullivan, Market Engineering Consulting Report: The US 10-10-XXX Dial-Around Services Market at 5-15 (1999).

31. Associated Press, October 7, 1998, “AT&T hopes to get lucky with new phone service that rejects its own name.”

- In January 1995, Sprint introduced "Sprint Sense." This program offered 10 cent per minute rates during evenings and weekends for interstate long distance calls and 22 cent rates during peak periods. At the time, Sprint's prevailing plan had utilized separate prices of daytime, evening and night calls.³² AT&T's and MCI's rates at the time were further complicated by the use of prices that varied with the distance called.³³
- AT&T introduced the first single rate calling plan, at 15 cents per minute, in September 1996.³⁴ AT&T eliminated mileage-based pricing for its basic rates in November 1997.³⁵

"5 Cent Sundays" and 1998 Pricing Programs

44. The introduction of new weekend discounts began in 1997, initially by MCI. Flat pricing plans at reduced per minute rates were expanded beginning in 1998, again initiated by MCI. Many of these new programs introduced minimum monthly fees, and thus effectively reduced price only for higher-volume customers.

- MCI introduced its "5 Cent Sunday" plan for residential customers in September 1997.³⁶
- MCI introduced "One Net Savings" in February 1998 offering 9 cent per minute rates on a 24 hour basis and 5 cent per minute Sundays rates to customers that signed up on line and used automatic credit card billing.³⁷
- Sprint introduced 10 cent per minute rates on a 24 hour, seven day per week basis in June 1998. The plan included a \$4.95 per month fee, which was waived for customers with more than \$30 in calls in a given month.³⁸

32. <<http://www.sprint.com/Stemp/press/releases/9501/9501050005.html>>.

33. "Telephone Discount Plans: Whose Fits Whom," Los Angeles Times, January 29, 1995.

34. <<http://www.att.com/press/0996/960924.csa.html>>.

35. <<http://www.att.com/press/1197/971104.csa.html>>.

36. PR Newswire, September 8, 1997, 1999, "MCI makes Sunday the day to call."

37. PR Newswire, February 27, 1998, "MCI Introduces MCI One Net Savings."

38. <<http://www.sprint.com/Stemp/press/releases/9806/9806040586.html>>.

- AT&T introduced a plan offering 10 cent per minute rates on a 24 hour basis with 5 cent per minute rates on weekends also with a \$4.95 per month fee in September 1998.³⁹

1999 Pricing Programs

45. Sprint's introduction of a new pricing program in mid-1999 was followed by the introduction of new programs by MCI WorldCom and AT&T.

- In July 1999, Sprint introduced "Nickel Nights," which included a rate of 5 cent per minute during the evenings (7 p.m. to midnight) and 10 cents per minute rates at other times. The program also included a \$5.95 monthly fee.⁴⁰
- In August 1999, MCI introduced "Five Cents Everyday" offering a rate of 5 cents per minute from 7 p.m. to 7 a.m. on weekdays, and all day on Saturday and Sunday, 25 cents per minute at other times. The program had a monthly fee of \$1.95. Another new MCI program, "Five Cents Everyday Plus," offered 5 cent per minute rates between 7 p.m. and 7 a.m. seven days a week and 10 cent per minute rates at other times for \$4.95 per month.⁴¹
- In August 1999, AT&T introduced its plan offering 7 cents a minute rates, 24 hours per day and 7 days a week. The monthly fee is \$5.95, which is reduced to \$4.95 if customers also select AT&T for local toll calls or for customers that receive bills on-line.⁴²

46. In sum, MCI and Sprint have introduced certain new pricing and service offerings. AT&T, however, typically reacted to these new events instead of being proactive in the development of new long distance services and pricing.⁴³ By combining these firms and

39. "AT&T Offers Nickel Rate Plan," The Record, September 25, 1998, at B01.

40. <<http://www.sprint.com/Stemp/press/releases/9907/9907190829.html>>.

41. <http://www.wcom.com/about_the_company/releases/display.phtml?cr/19990809>.

42. PR Newswire, August 30, 1999, "AT&T delivers simplicity and savings with two new plans." <https://www.catalog.att.com/ssi-cgi..787&pass_vid=E.0530074.000950833787>.

43. AT&T's role as a "follower" in competing for long distance customers was discussed in a 1996 report by Merrill Lynch which noted that "we've seen this so many times before where

eliminating Sprint as an independent competitor, the proposed transaction reduces the incentive for the remaining firms to compete in this manner, to the detriment of consumers.

E. CLAIMS THAT BOC ENTRY WILL PRESERVE COMPETITION IN THE PROVISION OF RESIDENTIAL LONG DISTANCE SERVICE ARE HIGHLY SPECULATIVE.

47. MCI WorldCom and Sprint claim in their FCC Application that the competitive "effect of [BOCs'] imminent entry cannot be underestimated."⁴⁴ There is little doubt that the entry of BOCs into the provision of long distance service will stimulate competition for residential customers. However, claims that expected BOC entry will immediately preserve current competition in the provision of long distance service to residential customers despite the proposed merger between MCI WorldCom and Sprint are overstated given that only one BOC application to provide in-region long distance service has been granted to date. The speed of BOC entry into long distance remains a highly speculative proposition.

48. Since 1997, BOCs have applied to the FCC for permission to provide long distance service in Michigan (Ameritech), South Carolina (Bell South), Oklahoma (SBC), twice in Louisiana (Bell South), and in New York (Bell Atlantic).⁴⁵ With only the recent exception of Bell Atlantic's New York application, the FCC has rejected each such request to date. It remains highly uncertain how quickly the FCC will authorize entry in other states. NYNEX's initial draft application to provide long distance service in New York, for example, was filed with the New York PSC in February 1997. SBC's pending application with the FCC to provide long distance service in Texas was filed with the Texas regulatory commission in March 1998.

(...continued)

Sprint and MCI are taking gobs of market share from an internally-focused and margin-focused AT&T -- until AT&T decides once again that the share losses are intolerable and thus decidedly ramps up its marketing and promotional efforts ..." (Merrill Lynch, Long Distance Telecom Services, Quarter 1 Review -- Industry Report, May 20, 1996.)

44. Application for Consent to Transfer Control of Sprint Corporation and MCI WorldCom, Inc., In re Applications of Sprint Corporation and MCI WorldCom Inc. for Consent to Transfer Control, November 17, 1999, p. 53.

45. SBC submitted an application to the FCC to provide long distance service in Texas on January 10, 2000. On February 14, 2000, the Department of Justice recommended that the application be denied. <<http://biz.yahoo.com/rf/000214/bg8.html>>

IV. THE STOCK MARKET REACTION SUGGESTS THAT THE PROPOSED TRANSACTION IS EXPECTED TO ADVERSELY AFFECT COMPETITION

49. Equity prices reflect investors' expectations of a company's future profitability and the reaction of stock prices to a given event provides information about investors' expectations regarding the effect of that event on a firm's profitability. Announcement of a merger is an event that can also affect the expected profitability, and thus the stock price, of rivals to the merging parties. Evaluation of the stock price reaction to an announced merger can provide information regarding investors' expectations about the effect of a proposed transaction on competition.⁴⁶

50. If an event is expected to adversely affect competition, the price paid by consumers, including customers of competitors to the merging parties, would rise. In turn, the stock price of rivals to the merging parties would increase if investors expected a merger to enable these firms to raise price following a merger. On the other hand, if a proposed transaction is expected to enable the merged firm to realize efficiencies and become a more effective competitor, the share price of rival firms would be expected to fall.⁴⁷

51. To investigate investors' expectations regarding the impact of the proposed transaction on competition, we have identified firms that operate long distance network facilities in competition with MCI WorldCom and Sprint. These firms would be likely to benefit, either now or in the future, if the price of residential long distance telephone services rises. (These firms would also be likely to benefit if the price of wholesale long distance service increased.) The long distance network suppliers considered in our analysis include:

46. See, for example, B. Eckbo, "Horizontal Mergers, Collusion and Stockholder Wealth," 11 Journal of Financial Economics 241 (1983) and R. Stillman, "Examining Antitrust Policy Toward Horizontal Mergers," 11 Journal of Financial Economics 225 (1983).

47. It is not possible to make inferences regarding the competitive effects of a proposed transaction based on the share price of the merging parties. The combined value of the merging parties would be expected to rise in the event that the transaction enabled the firm to realize efficiencies or if the transaction enabled the firms to raise price.

- **AT&T:** AT&T operates the most extensive national telecommunications network and is the leading provider of long distance services in the U.S.
- **Qwest:** Qwest has recently completed the deployment of a high-capacity fiber optic network. Qwest offers long distance services at both the retail and wholesale levels. Qwest is in the process of acquiring U S WEST.
- **Level 3** Level 3 is in the process of deploying a fiber optic long distance network in North America as well as local facilities in 40 cities. The network relies heavily on Internet Protocol technology.
- **Global Crossing:** Global Crossing is a new, facilities-based provider of long distance telecommunications services. It has an international fiber optic network and also recently acquired Frontier, a facilities-based provider of long distance services to residential and business customers. Frontier is also the incumbent local exchange carrier in Rochester, New York.

52. The evaluation of the stock price reaction to the MCI WorldCom/Sprint transaction requires an understanding of the complex events that culminated in the firms' merger agreement. Press reports of potential bids for Sprint by WorldCom and Duetche Telekom were reported on September 23, although Sprint was widely discussed in the press as a potential merger candidate in prior months and years.⁴⁸ Following the September 23 report, press reports about negotiations to acquire Sprint were reported regularly during the following two weeks.

48. Even before this report, the price of Sprint stock increased significantly -- from \$43 on September 1 to more than \$54 on September 22, an increase of 25 percent. Over the same period, the S&P 500 decreased by roughly 1.5 percent.

53. On September 30, FCC Chairman William Kennard publicly stated that a merger of MCI and Sprint might face opposition from the FCC. He stated that the FCC would not allow any merger that "turns back the clock on competition."⁴⁹ Press accounts of a potential bid for Sprint by BellSouth were reported on Friday, October 1, and BellSouth made a bid for Sprint on Monday, October 4. This transaction would not have reflected a merger between long distance providers and thus would not have raised the competitive concerns at issue in this case.

54. Sprint accepted MCI WorldCom's offer on the evening of October 4, 1999. On the morning of October 5, Chairman Kennard again expressed concerns about the proposed merger, stating, "[h]ow can this be good for consumers? The parties will bear a heavy burden to show how consumers would be better off."⁵⁰ On October 6, however, several analysts issued favorable comments about the proposed transaction and the likelihood that it would be approved. For example, Morgan Stanley Dean Witter analysts stated "[w]e think the deal will get done with conditions."⁵¹ DLJ Securities stated, "FCC and DOJ reviews should be rigorous, but should ultimately favor this merger."⁵² PaineWebber analysts made similar comments.⁵³ Trading volume for Sprint stock was extraordinarily high from October 4 through 6, with an average of 15 million shares trading each day over this period, compared to roughly 2 million shares traded per day during the prior year.

55. Based on these circumstances, we evaluate the stock price behavior of competitors to Sprint and MCI in the two day window of October 5 and 6. Sprint's decision to accept MCI WorldCom's offer instead of BellSouth's offer was not announced until after the closing on October 4. The heavy volume of trading of Sprint shares on October 5 and 6 reflects investors' attempt to evaluate these events, including the subsequent comments of Commissioner Kennard and analysts.

49. Dow Jones News Service, September 30, 1999, 5:33 p.m.

50. Dow Jones News Service, October 5, 1999, 11:28 a.m.

51. Morgan Stanley, Equity Research Briefing Note, October 6, 1999.

52. Donaldson, Lufkin and Jenrette, MCI WorldCom: Capturing FON and PCS Brilliant, October 6, 1999.

53. PaineWebber, Company Report -- MCI WorldCom Inc., October 6, 1999.

56. More specifically, we evaluate the extent to which the price of a portfolio of the stocks of the firms described above deviated from the level expected based on the market-wide stock price movements over this two day period.⁵⁴ As discussed above, if the proposed transaction were to adversely affect competition, we expect that the equity price for the long distance network facilities providers would rise. The results are consistent with this prediction.

57. Using a portfolio reflecting the equity value of included firms, we estimate that over this two day period the portfolio increased in value by 5.5 percent more than expected based on the changes in general market conditions. This estimated increase is statistically significant at the 95 percent confidence level.⁵⁵ Results based on a portfolio of the equally-weighted equity returns of the included firms produces results that are similar in magnitude and statistical significance.⁵⁶

58. In sum, changes in equity prices of long distance network operators appear to reflect investors' expectations that competition in the provision of long distance services will be adversely affected as a result of the proposed transaction.

CONCLUSION


59. For the reasons set forth above, we conclude that the proposed merger of Sprint and MCI WorldCom is likely to have anticompetitive effects for residential consumers of long distance services.

54. The expected change in the price of a stock is based on returns for the Standard and Poors 500 and the "beta" relating returns for individual stocks and the S&P 500. This relationship is estimated using daily returns data for the period September 1, 1998 through October 6, 1999.


55. This means that there is less than a five percent chance that the observed change is due to random factors alone.

56. The abnormal performance of the portfolio would be even larger if the "event window" was extended one additional day to include October 7.

We declare under penalty of perjury that the foregoing is true and correct to the best of our knowledge and belief.



Dennis W. Carlton



Hal S. Sider

February 18, 2000